STANTON COUNTY HOSPITAL

A COMPONENT UNIT OF STANTON COUNTY, KANSAS

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2017 AND 2016

George, Bowerman & Noel, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Stanton County Hospital
Johnson, Kansas

Report on the Financial Statements

We have audited the financial statements of Stanton County Hospital, a component unit of Stanton County, Kansas, as listed in the table of contents, at and for the year ended December 31, 2017 and 2016. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express opinions on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stanton County Hospital as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of

financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Hospital has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Additional Information

Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information on pages 22 through 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

George, Bowerman & Noel, P.A.

Wichita, Kansas
September 25, 2018

Stanton County Hospital

Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2017	December 31, 2016
Current assets:		
Cash and cash equivalents (Notes 1 and 3)	$ 569,496	$ 262,421
Accounts receivable, net of allowance for doubtful accounts of $344,108 in 2017 and $480,168 in 2016 (Notes 1 and 4)	775,254	1,094,684
Other receivables	106,889	9,732
Estimated third-party payor settlements (Note 2)	143,613	242,095
Inventories (Note 1)	139,634	143,012
Prepaid expenses and other	159,489	137,675
Total current assets	1,894,375	1,889,619
Capital assets (Notes 1 and 5):		
Land	14,930	14,930
Land improvements	409,946	409,946
Buildings and fixed equipment	14,077,108	14,248,408
Movable equipment	2,584,769	2,441,252
Construction in progress	–	–
	17,086,753	17,114,536
Less accumulated depreciation	8,881,902	7,856,719
Total capital assets, net of accumulated depreciation	8,204,851	9,257,817
Deferred outflows of resources - Pension (Notes 1 and 8)	1,089,862	1,214,511
Total assets and deferred outflows of resources	$ 11,189,088	$ 12,361,947

The accompanying notes are an integral part of these financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	December 31, 2017	December 31, 2016
Current liabilities:		
Accounts payable	$ 395,907	$ 483,934
Salaries and wages payable	111,184	95,246
Other accrued expenses	–	–
Note payable to bank (Note 9)	–	250,000
Current portion of compensated absences payable (Note 1)	188,663	77,074
Current portion of capital lease obligations (Note 6)	127,447	143,070
Total current liabilities	823,201	1,049,324
Long-term liabilities (Notes 1 and 6):		
Capital lease obligations	136,553	198,273
Compensated absences payable	154,361	198,189
Net pension liability (Notes 1 and 8)	3,636,637	3,613,010
Total long-term liabilities	3,927,551	4,009,472
Total liabilities	4,750,752	5,058,796
Deferred inflows of resources - Pension plan (Notes 1 and 8)	187,093	143,550
Net position (Notes 1 and 8)		
Net investment in capital assets	7,940,851	8,916,474
Unrestricted	(1,689,608)	(1,756,873)
Total net position	6,251,243	7,159,601
Total liabilities, deferred inflows of resources and net position	$ 11,189,088	$ 12,361,947

Stanton County Hospital

Statements of Revenues, Expenses, and Changes In Net Position

	Year ended December 31, 2017	2016
Operating revenues:		
Net patient service revenue	$ 7,233,991	$ 6,325,521
Gain on disposal of capital assets	250,528	–
Other	370,448	307,451
Total operating revenues	7,854,967	6,632,972
Operating expenses:		
Salaries and wages	4,618,811	4,397,188
Employee benefits	1,371,616	1,250,799
Purchased services and professional fees	705,737	598,927
Supplies and other	1,916,725	1,900,801
Depreciation	1,130,171	1,267,330
Total operating expenses	9,743,060	9,415,045
Operating loss	(1,888,093)	(2,782,073)
Nonoperating revenues (expenses):		
Intergovernmental revenue - Stanton County	860,576	1,121,117
Noncapital grants and contributions	106,849	67,360
Interest income	12,100	6,587
Interest expense	(13,940)	(37,875)
Other	14,150	14,250
Total nonoperating revenues	979,735	1,171,439
Excess of expenses over revenues before captial grants and contributions	(908,358)	(1,610,634)
Capital grants and contributions	–	5,000
Decrease in net position	(908,358)	(1,605,634)
Net position, beginning of year	7,159,601	8,765,235
Net position, end of year	$ 6,251,243	$ 7,159,601

The accompanying notes are an integral part of these financial statements.

Stanton County Hospital

Statements of Cash Flows

	Year ended December 31, 2017	2016
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 7,651,903	$ 6,675,619
Payments to suppliers and contractors	(2,728,925)	(2,199,256)
Payments to employees	(4,535,112)	(4,349,182)
Payments for employee benefits	(1,371,616)	(1,257,912)
Other receipts and payments, net	370,448	307,451
Net cash used by operating activties	(613,302)	(823,280)
Cash flows from noncapital financing activities:		
Intergovernmental revenue	763,419	1,144,663
Net change in pension obligations	191,819	101,274
Noncapital grants and contributions	106,849	67,360
Other	14,150	14,250
Net cash provided by noncapital financing activities	1,076,237	1,327,547
Cash flows from capital and related financing activities:		
Principal paid on capital leases	(183,557)	(169,102)
Proceeds from disposal of capital assets	316,840	–
Interest paid on capital leases	(13,940)	(37,875)
Increase (decrease) in note payable to bank	(250,000)	(62,000)
Purchase of capital assets	(37,303)	(61,580)
Grants and contributions for capital assets	–	5,000
Net cash provided (used) by capital and related financing activities	(167,960)	(325,557)
Cash flows from investing activities:		
Interest on investments	12,100	6,587
Net change in assets limited as to use	–	–
Net cash provided by investing activties	12,100	6,587
Increase (decrease) in cash and cash equivalents	307,075	185,297
Cash and cash equivalents, beginning of year	262,421	77,124
Cash and cash equivalents, end of year	$ 569,496	$ 262,421

The accompanying notes are an integral part of these financial statements.

	Year ended December 31,	
	2017	2016
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (1,888,093)	$ (2,782,073)
Adjustments to reconcile operating loss:		
Depreciation and amortization	1,130,171	1,267,330
Gain on disposal of capital assets	(250,528)	–
Provision for bad debts	46,896	346,966
Net (increases) decreases in operating assets and liabilities:		
Accounts receivable	272,534	(201,211)
Estimated third-part payor settlements	98,482	204,343
Accounts payable and accrued expenses	(4,328)	368,067
Other assets and liabilities	(18,436)	(26,702)
	$ (613,302)	$ (823,280)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations and reporting entity

Stanton County Hospital (Hospital) is an acute care hospital located in Johnson, Kansas. The Hospital is a component unit of Stanton County, Kansas (County). The Hospital is governed by a Board of Trustees elected by the registered voters of the County. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care, and long-term care services to patients, substantially all of whom are from the Stanton County area.

Basis of accounting and presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Property taxes, investment income, interest on capital assets-related debt are included in nonoperating revenues and expenses.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisitions, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net patient service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors, and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Patient accounts receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, payor mix trends, and existing economic conditions. As a service to patients, the Hospital bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are generally due in full when billed. If the patient is unable to pay the full amount at the time the patient is billed, the Hospital negotiates a payment plan whereby monthly payments are made by the patient on the account. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. If future actual default rates on accounts receivable differ from those currently anticipated, the Hospital may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

Inventories

Inventories of supplies are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Capital assets

The Hospital's capital assets that are $5,000 or greater, are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following estimated useful lives:

Land improvements	10-20 years
Buildings	15-40 years
Fixed equipment	5-20 years
Major moveable equipment	3-20 years

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. When depreciable property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected as non-operating revenue (expense).

Charity care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital provided $78,315 and $–0– of charity care for the years ended December 31, 2017 and 2016, respectively estimated by multiplying the Hospital's cost to charge ratio by the gross uncompensated care charges associated with providing care to charity patients.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and contributions

From time to time, the Hospital receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Net position

Net assets of the Hospital are classified into two components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* are remaining assets plus deferred outflows of resources less remaining liabilities plus deferred inflows of resources that do not meet the definition of *net investment in capital assets*.

Compensated absences

Employees of the Hospital are entitled to paid time off (PTO) depending on their length of service with the Hospital. Employees begin accruing PTO on a bi-weekly basis following employment; however, PTO cannot be used until after the employee has completed a 3-month introductory period. Up to 120 hours of unused PTO may be carried over to the next year in a reserve bank. The reserve bank may not exceed 120 hours. Employees may cash in up to 60 hours in the reserve bank at full value at their base rate of pay. Reserve bank hours above 60 hours are reimbursed at a rate of one hour for every two hours accumulated.

Upon resignation, termination or retirement from service with the Hospital, employees with twelve or more months of employment are entitled to payment for all unused PTO hours plus their reserve bank hours. However, the reserve bank hours above 60 hours will be reimbursed at the rate of one hour for every two hours accumulated.

Cash and cash equivalents

Cash and cash equivalents include cash, money market and NOW accounts with maturities of three months or less, excluding those investments designated by the Board of Trustees for the purchase or replacement of capital assets (Note 3).

Taxation

The Hospital is a component unit of Stanton County, a political subdivision of the State of Kansas and as such, is exempt from Federal income taxes under Section 115 of the Internal Revenue Code.

Risk management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage in any of the three preceding years.

The Hospital pays fixed premiums for annual medical malpractice coverage under an occurrence-basis policy. The Hospital accrues the expenses of its share of malpractice claim costs, if any, of reported and unreported incidents of potential improper professional service occurring during the year by estimating the

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

probable ultimate cost of any incident. Based on the Hospital's own claims experience, no accrual, for medical malpractice costs has been made in the accompanying financial statements.

Deferred inflows of resources/Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense or reduction of a liability) until that time. Deferred outflows of resources for pension consist of pension items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

The Hospital reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position. Deferred inflows of resources consist of pension items not yet credited to pension expense.

Reclassifications

Certain other reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. These other reclassifications had no effect on the change in net position.

Subsequent events

Subsequent events have been evaluated through September 25, 2018, which is the date the financial statements were available to be issued.

2. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient and outpatient services are paid based on cost reimbursement methodologies. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and reviews thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2016.

- **Medicaid** – Effective January 1, 2013, the Facility is reimbursed under the State of Kansas KanCare program utilizing the Medicaid fee schedule plus a cost adjustment factor.

  Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively. Effective July 1, 2011, rates are computed each calendar quarter using a three-year average of cost reports and changes in the Medicaid resident case mix index.

  Based on certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were approximately $68,000 and $114,000 in 2017 and 2016, respectively.

Net patient service revenue from participation in the Medicare and Medicaid programs was approximately 76% and 70% in 2017 and 2016, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

2. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS (continued)

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other third-party payor programs. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and cost reimbursement.

3. CASH AND INVESTED CASH

Cash and invested cash consisted of the following:

	December 31,	
	2017	2016
Cash and cash equivalents:		
Cash on hand	$ 1,679	$ 461
NOW account	24,446	65,599
Money market accounts	543,371	196,361
	$ 569,496	$ 262,421

Deposits

The Hospital's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at market, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statutes define the allowable pledged securities. Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital's deposits may not be returned to the Hospital or the Hospital will be unable to recover the collateral securities in the possession of an outside party.

At December 31, 2017, the carrying amount of the Hospital's deposits, which approximates fair value, was $567,817 with the bank balances of such accounts being $559,664. Of the bank balances, $250,000 was secured by federal depository insurance and the remaining balance of $309,664 was covered by collateral held by the Hospital's custodial banks in joint custody in the name of the Hospital and its banks. The fair value of those pledged securities held by the Hospital's custodial banks was $610,071 at December 31, 2017.

The remaining carrying amount of the Hospital's cash and investments at December 31, 2017 consisted of cash on hand of $1,679.

Investment policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Hospital's investing activities are managed under the custody of the Hospital Chief Executive Officer. Investing is performed in accordance with investment policies adopted by the Board of Trustees and in compliance with State statutes.

Applicable state statutes authorize the Hospital to invest in (1) temporary notes or no-fund warrants issued by the Hospital (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Hospital's policies provide that to the extent practicable, investments are matched with anticipated cash flows.

4. CONCENTRATIONS OF CREDIT RISK

The Hospital is a provider of health care services and is located in the City of Johnson, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local area residents and some are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	December 31, 2017	December 31, 2016
Medicare	$ 407,301	$ 853,157
Medicaid	115,279	56,323
Blue Cross	75,291	73,854
Other third-party payors	59,264	112,089
Patients	462,227	479,429
Gross accounts receivable	1,119,362	1,574,852
Less allowance for doubtful accounts	344,108	480,168
	$ 775,254	$ 1,094,684

5. CAPITAL ASSETS

Capital asset additions, disposals, transfers, and balances for the years ended December 31, 2017 and 2016 were as follows:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	$ 14,930	$ –	$ –	$ –	$ 14,930
Construction in progress	–	–	–	–	–
Total capital assets not being depreciated:	14,930	–	–	–	14,930
Capital assets being depreciated:					
Land improvements	409,946	–	–	–	409,946
Building and fixed equipment	14,248,408	–	(171,300)	–	14,077,108
Movable equipment	2,441,252	143,517	–	–	2,584,769
Total capital assets being depreciated	17,099,606	143,517	(171,300)	–	17,071,823
Less accumulated depreciation for:					
Land improvements	172,299	31,679	–	–	203,978
Building and fixed equipment	5,851,877	830,035	(104,988)	–	6,576,924
Movable equipment	1,832,543	268,457	–	–	2,101,000

5. CAPITAL ASSETS (continued)

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Total accumulated depreciation	7,856,719	1,130,171	(104,988)	–	8,881,902
Total capital assets being depreciated, net	9,242,887	(986,654)	(66,312)	–	8,189,921
Total capital assets, net	$ 9,257,817	$ (986,654)	$ (66,312)	$ –	$ 8,204,851

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	$ 14,930	$ –	$ –	$ –	$ 14,930
Construction in progress	436,893	–	–	(436,893)	–
Total capital assets not being depreciated:	451,823	–	–	(436,893)	14,930
Capital assets being depreciated:					
Land improvements	409,946	–	–	–	409,946
Building and fixed equipment	14,248,408	–	–	–	14,248,408
Movable equipment	1,942,779	61,580	–	436,893	2,441,252
Total capital assets being depreciated	16,601,133	61,580	–	436,893	17,099,606
Less accumulated depreciation for:					
Land improvements	140,620	31,679	–	–	172,299
Building and fixed equipment	4,921,383	930,494	–	–	5,851,877
Movable equipment	1,527,386	305,157	–	–	1,832,543
Total accumulated depreciation	6,589,389	1,267,330	–	–	7,856,719
Total capital assets being depreciated, net	10,011,744	(1,205,750)	–	–	9,242,887
Total capital assets, net	$10,463,567	$(1,205,750)	$ –	$ –	$ 9,257,817

6. LONG-TERM LIABILITIES

The following is a summary of the transactions for long-term liabilities for the years ended December 31, 2017 and 2016:

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Capital lease obligations	$ 341,343	$ 106,214	$ 183,557	$ 264,000	$ 127,447
Compensated absences payable	275,263	245,912	178,151	343,024	188,663
	$ 616,606	$ 352,126	$ 361,708	$ 607,024	$ 316,110

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Capital lease obligations	$ 510,445	$ –	$ 169,102	$ 341,343	$ 143,070
Compensated absences payable	260,522	86,241	71,500	275,263	77,074
	$ 770,967	$ 86,241	$ 240,602	$ 616,606	$ 220,144

The Hospital leases certain equipment under capital lease agreements. Interest incurred under the leases was $12,560 and $13,587 for the years ended December 31, 2017 and 2016, respectively.

These leases qualify as capital leases for accounting purposes and, accordingly, have been recorded at the present value of the minimum lease payments at the date of lease inception. The following is an analysis of the financial presentation of the capital leases:

	December 31,	
	2017	2016
Movable equipment	$ 763,400	$ 814,386
Accumulated depreciation	467,844	451,437
	$ 295,556	$ 362,949

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2017:

Year ending December 31,	
2018	$ 133,770
2019	93,133
2020	23,198
2021	23,198
2022	1,931
Total minimum lease payments	275,230
Less amount representing interest	11,230
Present value of net minimum lease payments	264,000
Less current portion	127,447
Long-term portion	$ 136,553

7. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Hospital is required to allow retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital would be subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy, if any, has not been quantified in these financial statements. It is management's opinion that the effect on the Hospital's financial statements is not significant. The Hospital provides no other post-employment benefits, other than a retirement plan, for former employees.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage.

8. PENSION PLAN

Plan description

The Hospital participates in the Kansas Public Employees Retirement System, a cost sharing multiple employer defined benefit pension plan. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74-4901 *et. seq.*:

Public employees, which includes:

- State/School employees
- Local government employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. Participant by local political subdivisions is optional, but irrevocable once elected. The Hospital's employees participate in the local group.

The KPERS plan is a cost-sharing, multiemployer, defined benefit plan. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869, by calling 1-888-275-5737 or via KPERS website at www.kpers.org.

Benefits provided

KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. Members with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85.

Monthly retirement benefits are based on statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

8. PENSION PLAN (continued)

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employees. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% of total payroll for the fiscal year ended December 31, 2017. The Hospital's contractually required contribution rates are as follows:

Period	Percent
January 1, 2016 to December 31, 2016	9.18%
January 1, 2017 to December 31, 2017	8.46

The employer contribution rate is actuarially determined as an amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital's contributions to KPERS for pensions for the years ended December 31, 2017 and 2016, were and $566,217 and $499,023, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At December 31, 2017 and 2016, the Hospital reported at liability of $3,636,637 and $3,613,010, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to the total employer and non-employer actual contributions of the group. At December 31, 2017 the Hospital's proportion was 0.251070%, which was an increase of 0.017525% from its proportion measured as of December 31, 2016. The December 31, 2016 Hospital proportion was a decrease of 0.003827 from its proportion measured at as of December 31, 2015.

For the year ended December 31, 2017 and 2016, the Hospital recognized pension expense of $566,217 and $499,023, respectively. At December 31, 2017 and 2016, respectively, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Hospital contributions subsequent to the measurement date	$ 181,211	$ –
Differences between expected and actual experience	17,589	125,747
Net difference between projected and actual earnings on pension plan investments	114,075	–
Changes of assumptions	195,848	26,593
Changes in proportion	581,139	34,753
Total	$ 1,089,862	$ 187,093

8. PENSION PLAN (continued)

	December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Hospital contributions subsequent to the measurement date	$ 207,349	$ –
Differences between expected and actual experience	20,970	65,211
Net difference between projected and actual earnings on pension plan investments	426,805	–
Changes of assumptions	–	33,797
Changes in proportion	559,387	44,542
Total	$ 1,214,511	$ 143,550

The Hospital reported $181,211 as deferred outflows of resources related to pensions resulting from Hospital's contributions subsequent to the measurement date, of June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31,	Amount
2018	$ 204,944
2019	326,007
2020	161,844
2021	(1,336)
2022	30,098

Actuarial assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2016 and 2015, which were then rolled forward to June 30, 2017 and 2016, using the following actuarial assumptions:

	2016	2015
Price inflation	2.75%	3.00%
Wage inflation	3.50%	4.00%
Salary increases, including wage increases and inflation	3.50 to 12.00%	4.00 to 16.00%
Investment rate of return, compounded annually, net of investment expense, and including inflation	7.75%	8.00%

For 2017, mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.

For 2016, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2016 valuation, were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2015. The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the actuarial experience study conducted for the three-year period ending on December 31, 2012.

8. PENSION PLAN (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

	December 31, 2017	
Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.00%	6.80%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	2.00	(0.25)
Total	100.00%	

	December 31, 2016	
Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.00%	6.80%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	2.00	(0.25)
Total	100.00%	

Discount rate

The discount rate used to measure the total pension liability was 7.75% and 8.00% for the years ended December 31, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for these groups may not increase by more than the statutory cap (1.2% for 2017). The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

8. PENSION PLAN (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the Hospital's share of the net pension liability of the Pension Plan calculated using the discount rate of 7.75% and 8.00% for 2017 and 2016, respectively, as well as what the Pension Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1.00% Decrease (6.75%)	Current Discount Rate (7.75%)	1.00% Increase (8.75)
Hospital District's proportionate share of the net pension liability (2017)	$ 5,237,553	$ 3,636,637	$ 2,287,129

	1.00% Decrease (7.00%)	Current Discount Rate (8.00%)	1.00% Increase (9.00%)
Hospital's proportionate share of the net pension liability (2016)	$4,952,215	$ 3,613,010	$ 2,477,469

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

9. NOTE PAYABLE TO BANK

The Hospital has a revolving line of credit agreement with a local bank with an interest rate of 6.50%. Interest expense incurred on the obligation for the years ended December 31, 2017 and 2016 was $1,380 and $23,919, respectively. The note is collateralized by accounts receivable and it is management's intention to pursue the renewal of the agreement when it expires in September 2018.

REQUIRED SUPPLEMENTARY INFORMATION

STANTON COUNTY HOSPITAL

Schedule of the Hospital's Proportionate Share of the Net Pension Liability – Kansas Public Employees Retirement System Plan
Last Ten Years*

	2017	2016	2015
Hospital's proportion percentage of the net pension liability	0.251070%	0.233545%	0.237372%
Hospital's proportionate share of the net pension liability	3,636,637	3,613,010	3,116,799
Hospital's covered employee payroll	4,642,009	3,978,046	4,106,312
Hospital's proportionate share of the net pension liability as a percentage of its covered employee payroll	78.34%	90.82%	75.90%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%

Schedule of Hospital Contributions
Last Ten Years*

	2017	2016	2015
Contractually required contribution	$ 362,423	$ 386,848	$ 371,272
Contribution in relation to the contractually required contribution	362,423	386,848	371,272
Contribution deficiency (excess)	$ –	$ –	$ –
Hospital's covered payroll	$4,283,960	$4,214,024	$3,916,371
Contributions as a percentage of covered employee payroll	8.46%	9.18%	9.48%

* - This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

ADDITIONAL INFORMATION

Stanton County Hospital

SCHEDULE OF PATIENT SERVICE REVENUE

	Year ended December 31, 2017			Year ended December 31, 2016		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Nursing service	$ 815,167	$ –	$ 815,167	$ 478,971	$ –	$ 478,971
Nursery	8,000	–	8,000	11,521	–	11,521
Operating room	–	65,640	65,640	–	35,218	35,218
Long-term care	1,527,806	–	1,527,806	1,598,762	–	1,598,762
Delivery room	70,000	400	70,400	66,317	1,400	67,717
Radiology	94,939	1,149,843	1,244,782	73,004	1,195,964	1,268,968
Laboratory	166,925	1,169,582	1,336,507	129,886	1,070,190	1,200,076
Physical therapy	109,495	344,912	454,407	79,585	400,843	480,428
Speech therapy	–	–	0	–	–	0
Electrocardiology	3,285	44,010	47,295	1,570	35,880	37,450
Medical supplies	75,082	25,550	100,632	61,653	18,234	79,887
Pharmacy	150,137	114,614	264,751	104,418	85,999	190,417
Emergency room	2,480	317,010	319,490	6,460	398,115	404,575
Observation	–	168,725	168,725	–	228,065	228,065
Clinic	–	621,206	621,206	–	632,759	632,759
County health	–	65,438	65,438	–	61,098	61,098
Gross patient service revenue	$ 3,023,316	$ 4,086,930	7,110,246	$ 2,612,147	$ 4,163,765	6,775,912
Contractual adjustments			248,956			(103,425)
Charity care			(78,315)			–
Provision for bad debts			(46,896)			(346,966)
Net patient service revenue			$ 7,233,991			$ 6,325,521

Stanton County Hospital.

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

Department	Year ended December 31, 2017						
	Salaries and Wages	Employee Benefits	Purchased Services	Supplies and Other	Depreciation and Amortization	Total	Percent of total operating expenses
Routine service:							
Nursing service	$ 836,105	$ –	$ 92,684	$ 40,969	$ –	$ 969,758	9.95 %
Long-term care	897,765	–	36,865	80,178	–	1,014,808	10.42
	1,733,870	–	129,549	121,147	–	1,984,566	20.37
Ancillary services:							
Operating & recovery rooms	2,298	–	17,770	3,028	–	23,096	0.24
Delivery room	13,210	–	–	1,423	–	14,633	0.15
Radiology	100,346	–	125,974	48,153	–	274,473	2.82
Laboratory	131,288	–	81,173	160,665	–	373,126	3.83
Physical therapy	138,631	–	3,822	3,946	–	146,399	1.50
Speech therapy	–	–	–	–	–	0	0.00
EKG	–	–	–	345	–	345	0.00
Medical supplies	25,480	–	–	41,292	–	66,772	0.69
Pharmacy	37,954	–	15,000	270,171	–	323,125	3.32
Emergency room	64,215	–	164,506	7,678	–	236,399	2.43
Clinic	924,822	–	1,104	53,635	–	979,561	10.05
County health	140,335	–	10,856	70,997	–	222,188	2.28
Social Services	27,902	–	297	1,919	–	30,118	0.31
	1,606,481	–	420,502	663,252	–	2,690,235	27.61
General services:							
Nursing administration	102,503	–	–	1,050	–	103,553	1.06
Operation of plant	77,553	–	15,857	351,865	–	445,275	4.57
Laundry	40,417	–	–	3,575	–	43,992	0.45
Housekeeping	120,228	–	110	27,260	–	147,598	1.51
Dietary	196,459	–	4,929	203,925	–	405,313	4.16
Medical records	41,525	–	–	17,037	–	58,562	0.60
Administration	699,775	–	134,790	527,614	–	1,362,179	13.98
Employee benefits	–	1,371,616	–	–	–	1,371,616	14.08
	1,278,460	1,371,616	155,686	1,132,326	–	3,938,088	40.42
Depreciation and amortization	–	–	–	–	1,130,171	1,130,171	11.60
Total operating expenses	$ 4,618,811	$ 1,371,616	$ 705,737	$ 1,916,725	$ 1,130,171	$ 9,743,060	100.00 %

Department	Year ended December 31, 2016						
	Salaries and Wages	Employee Benefits	Purchased Services	Supplies and Other	Depreciation and Amortization	Total	Percent of total operating expenses
Routine service:							
Nursing service	$ 704,009	$ –	$ 40,726	$ 53,066	$ –	$ 797,801	8.47 %
Long-term care	844,972	–	24,408	62,957	–	932,337	9.90
	1,548,981	–	65,134	116,023	–	1,730,138	18.38
Ancillary services:							
Operating & recovery rooms	3,508	–	16,765	6,012	–	26,285	0.28
Delivery room	10,073	–	–	1,897	–	11,970	0.13
Radiology	99,658	–	141,058	53,679	–	294,395	3.13
Laboratory	126,744	–	54,771	180,404	–	361,919	3.84
Physical therapy	128,251	–	65	1,559	–	129,875	1.38
Speech therapy	–	–	–	212	–	212	0.00
EKG	–	–	–	703	–	703	0.01
Medical supplies	32,116	–	–	28,507	–	60,623	0.64
Pharmacy	42,892	–	13,000	182,840	–	238,732	2.54
Emergency room	39,778	–	158,356	12,980	–	211,114	2.24
Clinic	940,581	–	2,620	39,654	–	982,855	10.44
County health	133,939	–	9,054	57,067	–	200,060	2.12
Social Services	28,831	–	1,755	2,978	–	33,564	0.36
	1,586,371	–	397,444	568,492	–	2,552,307	27.11
General services:							
Nursing administration	102,676	–	–	2,444	–	105,120	1.12
Operation of plant	77,692	–	35,155	305,458	–	418,305	4.44
Laundry	44,148	–	–	6,318	–	50,466	0.54
Housekeeping	95,056	–	–	18,355	–	113,411	1.20
Dietary	192,184	–	5,611	201,390	–	399,185	4.24
Medical records	57,228	–	1,114	16,211	–	74,553	0.79
Administration	692,852	–	94,469	666,110	–	1,453,431	15.44
Employee benefits	–	1,250,799	–	–	–	1,250,799	13.29
	1,261,836	1,250,799	136,349	1,216,286	–	3,865,270	41.05
Depreciation and amortization	–	–	–	–	1,267,330	1,267,330	13.46
Total operating expenses	$ 4,397,188	$ 1,250,799	$ 598,927	$ 1,900,801	$ 1,267,330	$ 9,415,045	100.00 %